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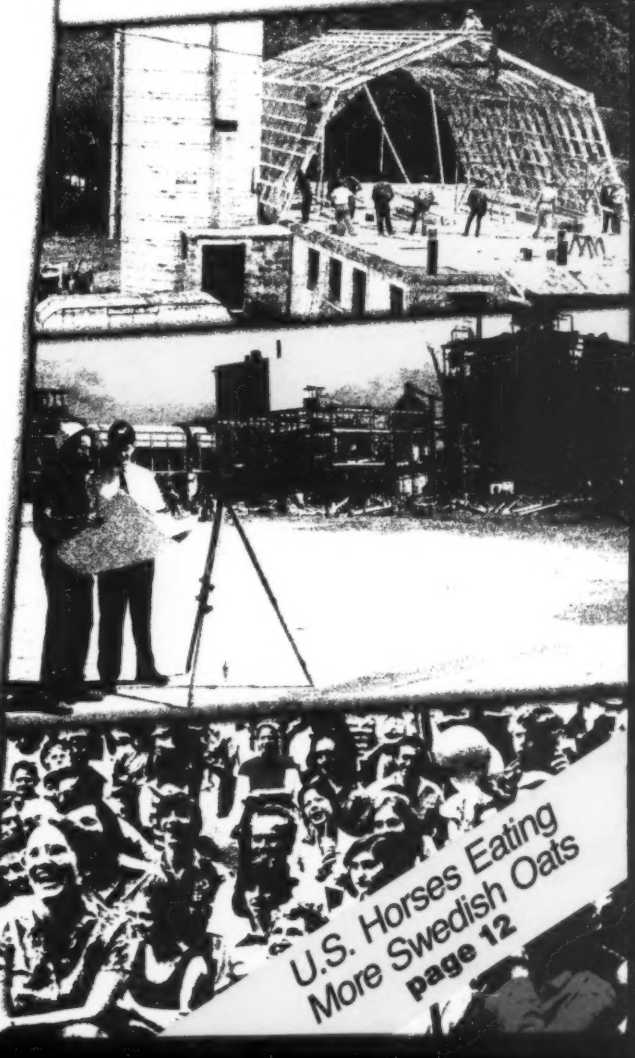
Rebuilding Rural America



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PERSPECTIVES

THE LATEST SUPPLY-DEMAND ESTIMATES show that progress is likely to be made during the next year in lowering the large stocks of grains, oilseeds, and other crops on hand in the United States and worldwide. With most of this year's crops yet to be harvested, these estimates are very tentative, however. The information here is from USDA's mid-July report.

Total world grain production is forecast at 1.64 billion metric tons for 1987/88, down 2% from the 1986/87 estimate of 1.68 billion tons. The figure for 1985/86 was 1.66 billion tons. U.S. grain production is expected to be 280 million tons in 1987/88, down 11% from 1986/87 and 19% from 1985/86. World grain stocks are expected to fall from 386 million tons at the end of the 1986/87 season to 368 million tons by the close of 1987/88. U.S. year-ending stocks are projected to be 191 million tons for 1987/88, down 7% from the 1986/87 estimate, but still above the 1985/86 figure of 181 million tons.

World wheat production is expected to fall to 509 million tons for 1987/88, after the 1986/87 crop came in at a record level of about 529 million tons. U.S. production is expected to be 2.1 billion bushels for 1987/88, approximately the same as 1986/87. The 1985/86 crop had been 2.4 billion bushels. World wheat stocks of 147.5 million tons as of the end of the 1986/87 year put that total at 8% above 1985/86 stocks of 137 million tons. The latest projection is that ending stocks for 1987/88 will be about the same as a year earlier. U.S. wheat exports are estimated at 27.6 million tons for 1986/87, up nearly 11% from the previous year. A further increase, to 33.3 million tons, is expected for 1987/88.

Rice supplies in this country have been trimmed, through increased exports. Stocks as of the end of the 1986/87 year were estimated at 58 million cwt., down from 77 million a year earlier. During the 1987/88 year, stocks should fall even more rapidly, to 38 million cwt., according to the USDA projection.

World coarse grain supplies are expected to total more than 215 million metric tons at the end of the 1986/87 year, an increase of 32.4 million tons over a year earlier. By the end of the 1987/88 year, however, world supplies are forecast to be down to about 200 million tons. U.S. corn stocks continue at record levels, with an estimate of 126 million tons for 1986/87, up 23% in a year. The stocks are expected to fall next year, however. U.S. corn production of 7.15 billion bushels for 1987/88 would be 13% lower than a year earlier. Production of feed grains in this country is projected at 216.5 million tons for 1987/88, a 14% drop from 1986/87.

World oilseed production is forecast at a record 202 million tons for 1987/88. The world soybean crop is expected to total about 100 million tons, with U.S. growers contributing nearly 52 million tons. At those levels, U.S. production would be off about 4%, and world production down less than 1%. U.S. soybean exports for 1987/88 are forecast at 17.7 million tons, down from 19 million in 1986/87 and 20 million the previous year. U.S. ending stocks of soybeans for 1986/87 are put at 560 million tons, and are expected to fall 3% during the 1987/88 year.

Cotton prospects for 1987/88 indicate a continuing reduction of world stocks, from 32.3 million bales at the end of the 1986/87 year to 29.3 million a year later. World stocks were at 46.2 million bales at the end of 1985/86. Increased exports have trimmed U.S. stocks from 9.35 million bales at the end of 1985/86 to an estimated 5.2 million bales at the end of 1986/87. The continuing trend is expected to drop the stocks to about 3.6 million bales by the end of 1987/88. World production is forecast at 77.6 million bales for 1987/88, up 11% from a year earlier. U.S. cotton production is expected to be about 12 million bales for 1987/88, an increase of 19% over the previous year. U.S. exports, only 2 million bales in 1985/86, are up to an estimated 6.7 million bales for 1986/87 and a projected 6.5 million bales for 1987/88.

FARMLINE

AGRICULTURE . . . NATURAL RESOURCES . . . RURAL DEVELOPMENT
Practical economic intelligence from USDA's Economic Research Service

FEATURES

Broader Economic Base Is a Key to Rural Recovery *by Doug Martinez* 4

An upturn in agricultural conditions is important to the rejuvenation of rural America. But that won't solve the problems of some communities. Strategies for rebuilding should include "self-development," locally generated entrepreneurship, and innovative leadership, keyed to various local conditions, a USDA specialist says.

Oats Imports: What Effect on U.S. Growers? *by Jack Harrison* 12

The United States has been importing substantial amounts of oats for the last 4 years. The imports have had an effect on supply, prices, and government payments. The new importer status is just one of several significant changes in the U.S. oats situation during the last 30 years.

Dairy Farms Not Immune to Financial Stress *by Juliana King* 16

Dairy farmers, like other groups represented in the U.S. agricultural economy, have been enduring some financial stress. But most dairy operations are financially sound. Conditions differ markedly according to farm size and location, a study of survey data indicates.

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Dialing Up Economic Information 10

This handy guide provides telephone numbers of key specialists in USDA's Economic Research Service and National Agricultural Statistics Service. The listings are arranged by subject, to help you find the right person to answer questions about crops, livestock, farmland prices, trade, and other topics. Clip and save the guide.

Broader Economic Base Is a Key to Rural Recovery

Reviving rural economies hurt by downturns in the agricultural and energy sectors is going to take more than a fine-tuning of farm and rural development programs.

That's the view voiced by political scientist Norman Reid of USDA's Economic Research Service. He says government can help spur rural communities to "make the basic adjustments" to become economically viable again.

In many places, he says, that adjustment means broadening the base of local economies beyond any single economic sector—be it agriculture, energy, textiles, or other manufacturing. "Solutions must be conceived in broad economic development terms, not merely in terms of altered farm programs."

But rural policymakers may still be looking to minor adjustments in farm programs as the only way out of the present problems, Reid says.

"Many government officials continue to regard support for farming as the only appropriate rural development strategy and are reluctant to use public resources for other purposes," he says.

"However, policies to improve the health of the farming sector are not an efficient way to help rural areas generally. At the same time, making farm policies responsible for enhancing rural incomes can distort them in ways that make them ineffective as agricultural policies as well."

Reid explains that "farm programs, which relate to only a portion of rural workers, tackle only a small part of the problem, and thus are an inefficient way to solve rural problems generally. Because of productivity growth, the farm sector will continue to shed jobs. Thus, no matter how healthy farming is, it cannot generate new jobs."

Therefore, local governments should concentrate on developing communities that are more diverse and less dependent on single-industry prosperity, Reid says.

"The best hope often may be in regional approaches that attempt to expand economic opportunities within commuting range of rural workers," Reid says. "Current economic problems are often too big for individual communities to handle alone. And for many, there may be little real hope of creating enough employment locally to replace lost jobs."

"Rural areas may profit best from development of their human resources through education and training programs."

Designing such policies, he adds, means that government officials should deal with a series of considerations.

"Individual rural areas are often economically specialized. But across rural America as a whole, these specializations vary widely, and both conditions and future prospects can differ greatly from one locality to another," says Reid. "Rural strategies should be flexible enough to meet the specific needs of each area, rather than trying to apply the same approach to all rural areas."

He says that "the services and trade industries are increasingly vital to rural economic growth, while 'smokestack' industries are declining in importance. This trend suggests that traditional policies to attract jobs by building physical infrastructure (including roads, bridges, and industrial parks) may no longer be successful—if they ever were."

Instead, he says, "to compete in an economy that puts growing importance on innovation, rural areas may profit best from development of their human resources through education and training programs. This can help generate new economic activity by enhancing and exploiting local strengths, while avoiding programs that do no more than reshuffle existing jobs from one area to another."

Reid goes on to describe this as "a new strategy that focuses on developing the internal capacities and strengths of a local economy, rather than just trying to attract new employers from the outside."

Fundamentally, he says, "a self-development strategy calls on communities to identify their economic advantages and undervalued local resources and to initiate locally controlled ventures. Self-development strategies draw on entrepreneurship methods for the creation of new, usually small, local enterprises. But self-development strategies are broader than entrepreneurship, and include motivating community organizations and leadership where they exist or creating them where they do not."

Many rural communities, though, have pinned most of their hopes on bringing in business from outside.

"The opposite of self-development is the strategy of encouraging growth by attracting external investment," says Reid. "The typical example is the recruitment of outside corporations, often by offering them an assortment of inducements such as tax abatements, financing, and site development to locate a plant in the community. Retention and expansion strategies that focus on existing firms within the community may also include some of these inducements, depending on whether the firms are locally or externally owned."

Reid sees several potential advantages in the self-development approach.

"Because it encourages the creation of locally owned and operated firms, it strives to produce an economy in which decisions remain in the hands of local managers, for whom the welfare of the total community—and not simply the firm's balance sheet—is likely to be important," says Reid.

"Locally owned firms may be more likely to return benefits in such forms as greater community service, consideration of community values in scheduling, siting, and other decisions, and a commitment to stay in the community in the face of short-term financial setbacks. Locally controlled firms are thus less likely to be footloose."

He adds that "such firms are more likely to contribute to the enhancement of local entrepreneurial capacity and help build vitality in the local economy. While they cannot insulate the community's economy

As rural communities rebuild their economies, many are seeking more diversity.

from changing national and international economic conditions, they can at least make their responses to those changes with the community's perspective in mind."

Reid notes that "a strong base of small businesses also contributes vitality to the whole industrial ecology of an area and buffers the economy against the decline of mature industries. To the extent that an economic base made up of small enterprises is more diverse, it is more likely to avoid major economic shocks due to shifts in overall economic conditions."

Such self-development strategies may also have a further positive effect.

"They can create an economic climate attractive to larger firms that might wish to settle in the community," he says. "And they can have positive social effects, leading to a socially responsible corporate citizenship with a sense of commitment to the community and a citizenry better trained in business methods."

Reid says an entrepreneurial strategy can offer these benefits because it attempts to build on the human capital in a community, rather than taking advantage of the low costs of labor and land historically available in many rural places.

"Relying on cheap labor costs, in particular, creates a special vulnerability for rural communities," he says. "Industries that are sufficiently sensitive to labor costs to choose rural locations are just as likely to automate their production process or move elsewhere in the United States or overseas when it becomes profitable to do so. Communities that wish to make permanent additions to their job base will do better to encourage economic development that relies on unique characteristics of the area—such as special skills in the labor force, for example, or specializations of products—that cannot be readily duplicated in other locations."

There are a host of things that have economic potential, Reid says.

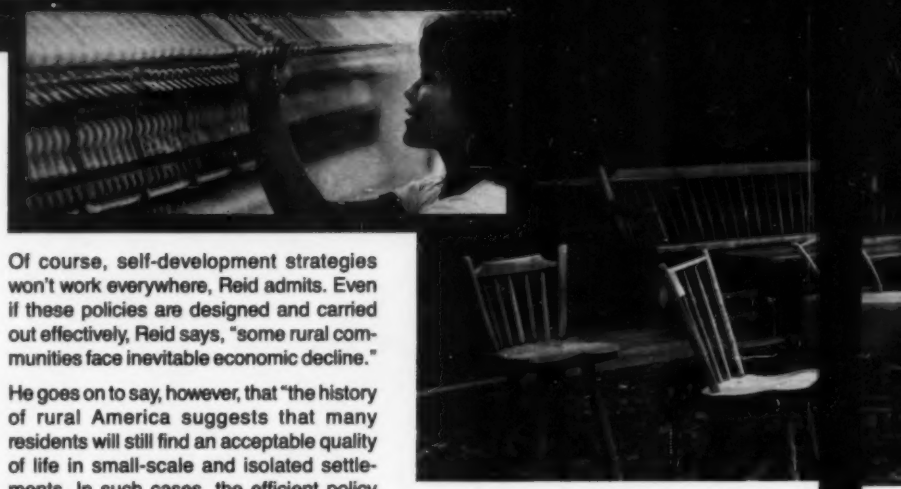
"Communities can develop regional cultural specialties—such things as handicrafts and weaving. Tourism offers a lot of possibilities. Many places have scenic attractions such as lakes and unspoiled forest land, which may have recreational and fish and game uses that have not been tapped. Places with abandoned railroad lines have built tourist lines."

By developing so-called "niches," communities can create advantages that are not necessarily price advantages. They could be advantages based on the uniqueness or quality of goods and services.

"Meeting particular needs with specialized products permits them to avoid reliance on minimum-wage labor and to escape the disadvantage of high costs of transporting goods and services to market," Reid says. "While distance from markets will continue to limit the access of rural entrepreneurs to urban markets, such niche strategies nonetheless offer the potential for rural communities to overcome disadvantages of location."

A strategy of community self-development isn't a simple one, however. "In many ways, it will be much harder to accomplish than traditional business recruitment strategies," Reid says.

"It requires a vision of what a community can be, based on a search, perhaps an agonizing one, to find new strengths the community can build on. Such introspection requires leadership that many communities lack and implies a process of self-examination that many may be unwilling to undertake. And it requires a long-term perspective on community development that



New enterprises and old standbys are both part of the solution to rural economic woes.

offers no quick fix to pressing needs for improved jobs and income," he says.

Community support for self-development programs may be equally difficult to obtain. "And political leaders may be less willing to support development strategies that take longer than their term of office and produce undramatic and incremental results when they succeed."

There is the further fact of high rates of business closures among small firms, which lead some observers to argue that small-business strategies are very risky.

"But there is evidence that an entrepreneurship approach is at least as likely to produce results as traditional business recruitment strategies, which have been characterized as 'buffalo hunts' that pit thousands of rural communities against each other."

Of course, self-development strategies won't work everywhere, Reid admits. Even if these policies are designed and carried out effectively, Reid says, "some rural communities face inevitable economic decline."

He goes on to say, however, that "the history of rural America suggests that many residents will still find an acceptable quality of life in small-scale and isolated settlements. In such cases, the efficient policy approach is not to stand in the way of downward economic adjustment, but to ease the hardship associated with the process of change."

Even so, "the potential implicit in the strategy of self-development argues that communities should include it in their bag of tools," Reid says.

"No matter how much the phrase 'entrepreneurship' may smack of faddism, there is something fundamentally sound about getting people to think seriously and innovatively about the economic opportunities that they, and their communities, may wish to exploit." □

[*Based primarily on information provided by political scientist Norman Reid of the Agriculture and Rural Economics Division, Economic Research Service.*]

Remotest Areas Shaken by World Events

Global happenings have come home to roost in the rural economy.

"Rural areas were once regarded as the part of the nation most remote from even national economic trends, but now they seem to be at least as exposed to international developments as the rest of the nation," says ERS political scientist Norman Reid.

He says economic problems in many rural areas appear to be associated with world trends and events—including energy and export developments.

"The rapid fall in fuel prices has caused serious problems for U.S. energy producers, who are concentrated in rural areas," Reid says. "Many new U.S. energy enterprises became feasible as the result of the high prices established by the OPEC cartel. Energy production boomed in the late 1970's and early 1980's. Prosperity associated with the boom was especially prevalent in the rural regions of the West and Southwest, and in mountainous mining areas in several parts of the country."

Consequently, Reid notes, "the collapse of fuel prices has produced a significant portion of the current rural regional distress."

Moreover, he says, "new developments in foreign food and fiber production have also been detrimental to portions of the American agricultural sector. Improved worldwide food production and distribution capability, along with protectionist policies in some parts of the world—and, until recently, the strong dollar—have greatly reduced U.S. exports by enabling many countries to satisfy local demand and increase their ability to compete in world markets. Weak demand for U.S. commodities has depressed prices, resulting in serious economic problems in many American rural regions closely linked to agriculture."

Rural manufacturing in the United States has also been hit, although it has fared better in the South than in other areas. Expansion of domestic production of manufactured goods has been limited by the strong U.S. dollar of the early 1980's, which enabled foreign suppliers to capture a larger share of some traditional markets.

"Employment in U.S. manufacturing has shown relatively little growth in recent years, mainly because we have learned how to produce more with fewer suppliers," says Reid. "The Southeast, historically one of the poorest regions, gained jobs rapidly in the 1970's, largely through the growth of goods-producing firms. But because of increases in labor productivity, it is doubtful that textiles and some other kinds of manufacturers in that region will provide as many jobs as they did in earlier years."

Rural areas, Reid says, "will be more and more impacted by shifting macroeconomic and foreign trade conditions. Those that develop the capacity to adjust to these continual economic changes may be in the best position to capitalize on the opportunities they present and minimize the risks they pose."

Small-Town Folks Grabbing Bootstraps

A candy factory in Utah, a farmer retraining program in Nebraska, and a budding tourist attraction in northeastern Georgia.

Across the nation, rural Americans are battling back against the economic troubles in their communities in a variety of inventive, even inspiring, ways.

Take Connie Gahley, a wife and mother of six who lives in the small town of Fairview, Utah. Gahley parlayed a knack for making candy into a booming business that employs some two dozen people in her community for 6 months each year.

For Connie and the women who work for her, this is no idle-time venture. Many of her employees must work to help husbands laid off by the troubled local coal mining industry or hurt by the downturn in farming. Others are working to pay medical or other family bills.

In fact, any job in Sanpete County (where Fairview is located) is precious. With a fifth of its workers unemployed, Sanpete has gotten a helpful boost from entrepreneurs like Connie.

Along with her husband, Connie used to operate a gasoline station. But when that business failed, Connie found herself casting about for a way to make money. Her novel solution: novelty candy.

Starting in a home kitchen, the business now occupies an entire building which once housed a drugstore. The main line is candy shaped in seasonal designs for the Halloween-through-Easter period. During that top-selling time, she employs about 24 people. The rest of the year, slower sales trim the staff to three or four, but those are all jobs that would not otherwise exist.

In the nation's midsection, an innovative Nebraska program is helping retrain farmers who are leaving their land—not by choice, but by circumstance. The state's Agriculture in Transition Program provides counseling and training that often leads to a job for farmers who are facing the loss of their farms.

The program is aimed not only at helping individuals, but also at keeping communities together by giving displaced farmers a chance to earn a living without leaving town.

Of the 60,000 farms in Nebraska, 3,500 were plowed under last year by financial stress. Many of those farms had been in the same families for generations. It has been an emotional loss so severe that some of those farmers confided to counselors that the retraining program literally saved their lives.

The specifics of the program are simple: Community colleges throughout the state assist farmers having economic problems. In some cases, program counselors are able to evaluate a farm business and advise how the owner can keep operating (perhaps by changing the crop mix or using a better marketing strategy). In most cases, however, the assistance involves an assessment of aptitude and retraining for a suitable career. Many times, those skills are already there, sharpened by years of use on the farm—repairing farm machinery, for example, which might lead to training as a mechanic.

In other cases, particularly where there has been little prior experience, farmers might be placed in an on-the-job training program. And here the state serves up an almost irresistible offer to potential employers: Hire our farmers on an OJT basis, and we'll pay half the first year salary. It's an offer many Nebraska businesspeople have snapped up.

Hartwell, Georgia, is tucked away in the northeastern section of the state. All it has, so most people there thought, is a nearby lake and a short-line railroad connected to a main freight line.

That's why, for a long time, Hartwell spent time and money on recruiting outside firms to locate in the town, with only slight success.

But then a man from the University of Georgia came by, spent some time talking to the people of Hartwell, and gave them pause to stop and look around. Yes, all they had was a nearby lake and a short-line railroad. But thousands of people visit that lake each year. Why not encourage them to visit Hartwell? Make the railroad itself an attraction by acquiring a steam engine, a couple of passenger cars, and a caboose, to give people a taste of old-time rail travel. Put in a few shops at the depot, making use of abandoned cotton warehouses built of brick, and you've got a place for people to shop and have lunch in Hartwell at the end of the railroad journey.

It has happened exactly that way, with tourists coming into Hartwell on the train and patronizing the businesses, from the Whistlestop Cafe to the travel agency.

And Hartwell is already training its next generation of entrepreneurs—high school students who will soon be opening a soda shop on Depot Street, under the guidance of their teachers and local officials.

AGRICULTURAL ROUNDUP

USDA Launches 'Regeneration'

Re-emphasizing its commitment to rural America, USDA has launched a "rural regeneration" program, officials say.

The first initiative under this program directs the department's Extension Service to place additional priority on rural revitalization education. Extension officials, in cooperation with state and county officials, community leaders, and colleges and universities, will work to "develop education and training programs best suited to community needs, build on local institutions, and expand interest in those specialized concerns," according to USDA officials.

Rural enterprise teams will be organized to be "on call" to go to communities and counties to offer ideas, or help develop action plans if requested, to assist in business development, job training, and financial management.

Information needs of policymakers will be better met by a rural development information clearinghouse to be set up at the National Agricultural Library in Beltsville, Maryland. The clearinghouse, providing a toll-free telephone service, will enable rural community officials to get current information about available federal programs, and to be referred to appropriate agencies for follow-up action.

To boost job development and aid communities, the Farmers Home Administration will redirect its Business and Industry Guaranteed Loan Program, using available funds to finance rural businesses—which in turn will create more jobs—and give preference to communities under the greatest economic stress.

Additionally, all USDA agencies with a research mission will increase their research related to rural economic development.

Rural areas may also be helped by other federal initiatives, some proposed and others already in place. These initiatives include the proposed Worker Readjustment Act to assist displaced workers, including farmers, tax reform that will provide more money in some 30 states to deal with rural problems, and funneling about three-fourths of federal Economic Development Administration assistance into rural areas.

State Role Crucial in Rural Rebound

To help revitalize rural areas, state governments should focus on the specific things they do best, say two experts who have studied the problem.

Presenting a research paper late last year to USDA's annual Outlook Conference, economist Stewart Smith, a professor at Tufts University in Medford, Massachusetts, and Sarah Redfield, a professor of law at Franklin Pierce Law Center in Concord, New Hampshire, outlined six strategies that states can use to aid rural residents.

"In many areas of the country, rural economies are in rapid and decisive transition. State governments can influence the direction and impact of this change," the authors said in their paper. "In some cases, state intervention can make the change positive for the economy, and in other cases it can ease the pain for those persons most affected."

According to Smith and Redfield, their suggested strategies can work in "the current era of budget constraints, economic change, and market orientation."

The strategies are:

- *Target resources.* Determine areas of competitive advantage and target resources accordingly. "The case of natural resource industries provides good examples. Certain natural resource manufacturing and processing firms locate in rural areas to cut the costs of transporting raw products to their plants. A state could encourage plants to locate at or remain near the state's raw product supply."

They go on to say that "a more recent use of providing 'infrastructure' support is to fully exploit the potential for telecommunications in order to shift the competitive relationships of various industries between rural and urban areas. One of the primary barriers to rural economic development is distance. Rural areas are costly to reach because the distance from markets and services results in higher transportation costs. However, telecommunications can virtually eliminate the costs associated with moving data, information, and communications over distances."

In addition, they say, "developing other economic activities based on natural resources and the rural environment is proving to be a good tactic in some cases. Tourism has been a traditional enterprise in rural areas, especially where unique natural resource attractions like lakes or mountains exist. An increasing number of New Englanders are using their rural homes for 'bed and breakfast' inns, and the number of people offering farm vacations is apparently increasing. Some regions have developed more day trip attractions. Reading, Pennsylvania, successfully converted manufacturing facilities into retail outlets as part of a planned tourist strategy. Another version of this pursuit—which has been a primary reason for substantial growth in certain nonmetropolitan areas over the past decade—is the development of retirement facilities in rural areas."

- *Finance change, transition, and demonstration.* "As a general rule, if existing firms can't get the money for traditional and regular business activity from private sources, the state probably should not be providing the financing. The state is not in any better position than the private credit community to evaluate risk in traditional businesses, nor is there any particular reason for the state to compete with the private sector to offer credit for typical ongoing operations.

"In contrast, the state does have a role in financing new technologies or products that the private credit systems may find too risky. In some industries this need is met by 'gap financing' that takes a process or product from the demonstration stage into production. Gap financing in the natural resource sector is an excellent niche for state government rural development programs."

Smith and Redfield cite two instances of successful programs.

"Oftentimes finance programs need to target specific technologies in order to build sufficient demand for them to attract private engineers, consultants, and suppliers. The Potato Market Improvement Fund in Maine created such a critical level of demand for technologies and equipment to build or retrofit certain potato storage and packing facilities. A $5 million revolving loan program funded by a general obligation bond issue attracted adequate attention to encourage equipment manufacturers, consulting engineers, and a university agricultural engineering department to direct resources at providing technology and equipment to that specific market.

"Vermont has adopted a more general loan program with similar objectives of change. Vermont uses its modest direct loan program to finance new crops, products, and technologies, focusing on helping dairy farmers make their move into alternative and complementary ventures."

- *Provide marketing and management support to small firms.* "Too many rural businesspeople view the concept of marketing as how to promote and sell the products already produced, rather than as how to determine what consumers want in terms of particular products and services and then producing for that defined market. In many cases small businesses neither have nor

believe they can afford adequate marketing capability. States can properly assist them to form groups to purchase such services cooperatively or provide such service directly from the public sector."

• *Support natural resource management.* "The private sector generally undervalues the advantages and returns from long-term resource management. State governments need to make sure that natural resources are managed for long-term returns through the use of government incentives and regulatory control for proper forest, soil and water, and fisheries management. Resource management needs to be viewed as part of rural economic activity."

• *Support value-mode agriculture.* This is a new term for part-time, high-value, or alternative farming that uses local products and services. "Whether by selling their products to local markets, by using local source inputs, or working farm-related or off-farm jobs, 'value-mode' farmers participate substantially more in their local communities than other farmers. A wise state strategy would support value-mode agriculture. State policies should provide opportunities to work off farm but remain on the farm in a value-mode agriculture. In this way, the existing labor pool can be used as a drawing card for economic activity. Additionally, learning to farm with fewer purchased inputs and adding value to output may provide insights for remaining traditional farmers."

• *Support transition out of the rural economy.* "If adequate economic activity cannot be sustained in a particular rural area, states should adopt policies and programs to assist in geographical transition.

"Education, retraining, and direct financial support could balance the scales for those farmers choosing to leave. Since occupational migration from full-time farming is inevitable in some cases, it should be viewed in a positive rather than negative light."

Farm Expenses Drop Sharply

Farm production expenses may eat up a smaller share of farm income over the next few years, says economist Gary Lucier of USDA's Economic Research Service.

Production expenses took an average of 85¢ of every dollar of gross farm income in the first half of the 1980's. The average was 76¢ per dollar of income in the 1970's, 73¢ in the 1960's, 64¢ in the 1950's, and a mere 53¢ in the 1940's.

Last year, the figure dropped sharply to an estimated 76¢ per dollar of income, the lowest level since 1975. It's likely to stay down for a few years, Lucier speculates. After that, it could begin to move up again, but the outlook, he adds, is full of "if's"—among them, prospects for inflation, interest rates, fuel prices, and farm programs.

Whatever happens, he notes, few observers expect any lasting reversal in the long-term upward trend (although widespread adoption of reduced tillage practices could slow it down). This upward trend mainly reflects the structural and technological changes in agriculture, including mechanization and the increasing dependence of farms on manufactured inputs, hired labor, borrowed capital, and other items purchased off the farm.

Farm production expenses rose steadily until hitting a record of nearly $143 billion in 1984. Then, expenses finally started to ease, dropping dramatically in 1986.

Steady to lower input prices, increasing use of minimum-tillage practices, and other cost-cutting steps by farmers helped. So did government-sponsored acreage reductions, which tended to pull marginal fields out of production. The poorer soils, says Lucier, required more inputs and produced a lower average yield.

The average margin after production expenses fluctuated in the range of 8¢-16¢ per dollar of income between 1980 and 1983.

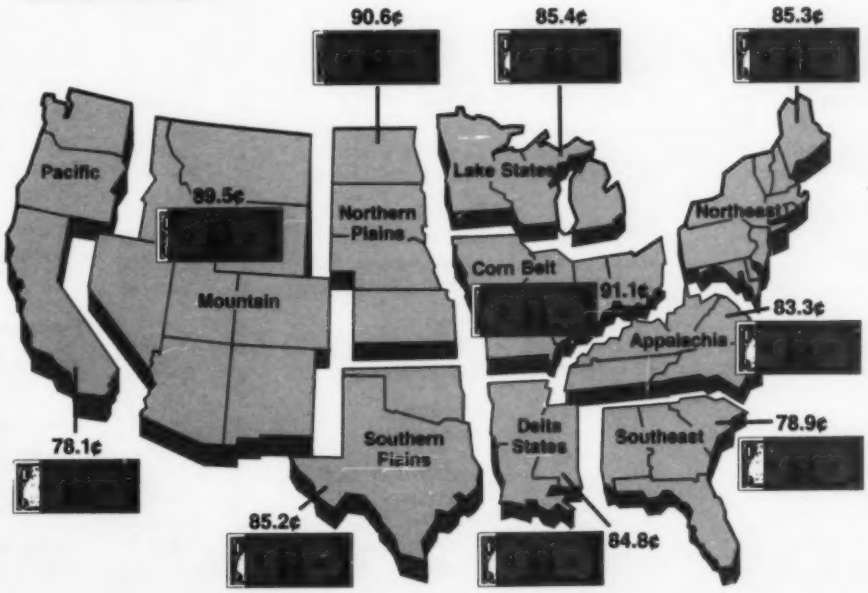
The margin increased to 18¢ in 1984 and 21¢ in 1985. Last year's estimated margin of 24¢ per dollar is more typical of the 1970's or late 1960's.

Although the squeeze on margins has eased for the time being, regional differences are still pronounced, Lucier says. In the first half of the 1980's, expenses took more than 90¢ of each income dollar in both the Corn Belt and Northern Plains. The Rocky Mountain states weren't far behind, at nearly 90¢.

On the other hand, the strongest margins were found on the Pacific Coast and in the Southeast. In these two regions, less than 80¢ per dollar of gross income went for production expenses.

The Squeeze on Margins Has Been Tightest in the Corn Belt and Northern Plains

Production expenses per dollar of gross farm income, 1980-85 average:



Dialing Up Economic Information

Need economic information or data on today's, tomorrow's, or even yesterday's agriculture? The economists, statisticians, and other specialists of the Economic Research Service and National Agricultural Statistics Service may be able to help. Here is a brief telephone guide that you can pull out and add to your files. Generally, those listed with an "S" for "Statistics" can give you acreage, yield, production, and stocks data. Those identified with an "E" for "Economics" can help with supply-demand-price questions and other economic issues. All telephone numbers can be reached by dialing area code 202.

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Oats Imports: What Effect on U.S. Growers?

In 1983, for the first time in about 30 years, this country became a net importer of oats.

For the last 4 years, the United States has been importing more oats than any other nation, despite its millions of idle cropland acres.

Why are we importing oats when we have production capacity that is not being used? And, how are the imports affecting the government farm program and its costs?

These are among the questions addressed in a recent report to Congress. The report was mandated by the 1985 farm bill.

Linwood Hoffman, an economist with USDA's Economic Research Service and co-author of the report, says the reasons for the increase in imports include currency exchange rates, bad weather, lower shipping costs, foreign subsidies, higher U.S. prices, and even the U.S. government farm program.

Beginning with the 1981 farm bill, participants in the government program have been eligible to receive deficiency payments for oats. As a condition of eligibility, they have generally been subject to the acreage reduction requirements of the feed grains program.

"Under the 1985 farm bill, oats and barley have a common acreage base, so a farmer can plant either crop on that acreage," Hoffman says. "Barley has been providing a better return." For example, participants in the government oats program in the Northern Plains during 1983, 1984, and 1985 averaged $44.08 net return per acre. In the barley program, the average was $64.58 per acre.

Not surprisingly, many growers seem to think that $20 an acre is sufficient reason to grow barley instead of oats.

Weather Hurt 1986 Crop

Bad weather, as much as anything, was the reason oats were imported on a large scale last year. Weather problems resulted in reduced production and lowered the test weight of much of the grain that was harvested.

Scandinavian countries have been providing most of the oats coming into the United States.

"Nearly all of the imported oats were used for feed in 1983 through 1985, but in 1986 some of the food companies turned to overseas suppliers as well, to find the high-quality oats they need," Hoffman says.

Currency exchange rates had more of an effect on imports in 1983-85, when the strong dollar made purchases from overseas more attractive. Transportation costs have sometimes been a factor when U.S. trading companies were shipping meal or similar products to Europe and could offer low rates on the trip back because their ships might have been returning empty. The same goes for barges on the Mississippi River, which have a "backhaul" upriver after delivering grain to New Orleans for export.

Importing substantial amounts of oats is a fairly new development for this country. In the 25 years prior to 1983, imports of oats averaged 2.3 million bushels annually, well below U.S. exports of oats. But in 1983 imports jumped to 30 million bushels, and have stayed at approximately that level.

Scandinavian countries have provided most of the oats coming into the United States since fiscal year 1984. In 1986, Sweden was the source of 63 percent of the total, Finland 21 percent, and Canada 16 percent. The United States has been the world's leading importer of oats during the 1980's, after ranking 13th in imports during the last half of the 1970's. This country now buys about one-third of the oats sold in world trade. West Germany, Switzerland, and Japan are second, third, and fourth on the list of biggest importers.

Oats Trade Is Not Large

World oats trade has averaged about 86 million bushels annually in recent years. Over the last 26 years, it has averaged 94 million bushels per year. The exports usually come from the countries that have surplus production because of good crop years. Trade also depends on the availability and price of other feed grains. The oats trade is not large compared with that of several other farm commodities.

U.S. exports of oats have averaged about 12 million bushels annually during the last 20 years, and just 2 million bushels during the last 5 years.

During the 1980's, Sweden has been the leading exporter of oats, followed by France, Australia, and Finland.

Oats production in this country is now the lowest it has been during the 20th century. When tractors replaced work horses, a lot less oats were needed. U.S. production was 1.5 billion bushels in 1955, but fell steadily to 639 million bushels by 1975. The average has been 488 million bushels per year during the 1980's. In 1950, the third most valuable U.S. crop was oats. By 1985, oats ranked only 16th.

U.S. Imports of Oats Now Come Mainly from Sweden

	1983	1984	1985	1986
		1,000 metric tons		
Sweden	94.5	35.6	311.2	286.8
Finland	0	171.7	120.1	92.9
Canada	115.4	128.3	44.7	71.1
Australia	0	13.2	0.1	0
Netherlands	0	0	10.5	0
Others	0.2	0	1.1	0
Total	210.1	348.8	487.7	450.8

Data for fiscal years, from USDA's Foreign Agricultural Service.

Since 1955, U.S. Total Use of Oats Has Declined by Two-Thirds

	Feed use	Food and other uses	Total
	million bushels		
1955	1,278	175	1,453
1960	934	156	1,090
1965	741	139	880
1970	778	116	894
1975	558	101	659
1980	432	87	519
1985	459	86	545
1986	400	88	488

Last year U.S. growers produced 384 million bushels of oats. Acreage is up this year, and with better weather, the forecasters say, production could be 100 million bushels greater than it was in 1986.

Nearly two-thirds of U.S. oats production is in five north-central states: North Dakota, South Dakota, Minnesota, Iowa, and Wisconsin. Oats area harvested fell from 10.3 million acres in 1982 to 6.9 million in 1986. During that same time, barley acreage has increased from 9.0 million to 12.0 million.

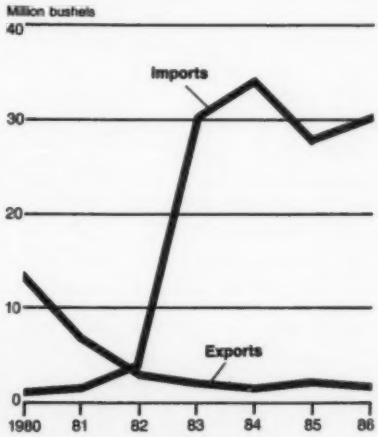
The price of oats averaged $1.10 per bushel during 1986. But based on feed value, oats were still not as much of a bargain as corn, Hoffman says. Oats prices fell from an average of $1.89 a bushel during 1981 to $1.25 in 1985.

On-Farm Use Is Substantial

About 60 percent of the oats produced in this country are fed to livestock on the farms where they're grown. Because of the large on-farm use, and lack of economic incentives, participation in the government program has not been great, with 14 to 37 percent of producers signing up during the last 5 years.

Total feed use, including oats grown on one farm and sold to another, accounts for about 85 percent of the crop, down from the 90-percent level of the 1950's. On-farm feeding has declined as farms have become more specialized and livestock feeding has been concentrated in areas outside the traditional oats-producing regions.

U.S. Imports of Oats Have Far Exceeded Exports During the Last 4 Years



Oats have more protein value than corn, but less energy value. They are good for conditioning livestock, especially breeding stock. Horses, milk cows, and mules account for 65 percent of the oats fed in this country. Many horse owners will pay a premium for high-quality, white oats, Hoffman says. Oats are also a good starter ration for hogs and dairy cattle. However, oilseed meal and byproduct feeds are more economical sources of protein than oats.

About 40 percent of the total value of the oats crop is in pasture, forage, and straw. Pasture and forage use is concentrated in the South, where oats make a good winter pasture. Oats grow well in cool climates and on acid soils.

In the last 20 years, the United States slipped to second place behind the Soviet Union in oats production. Other countries on the list of top producers are West Germany, Canada, Poland, France, China, and

'Fiber' Means New Prestige for Oatmeal

When your mother told you to eat your oatmeal on cold winter mornings because it was good for you, she was right.

But she probably didn't mention "fiber." Today, fiber is a word heard often in discussions of nutrition. And oats happen to be high in fiber.

Only 8 percent of the oats grown in this country are used for human food. However, several food companies have been looking for new oats products, and new ways to promote the old ones by emphasizing the value of fiber.

U.S. per capita consumption of oats products is 3.2 pounds annually, and has been at that level for 20 years. That's not a lot, compared with 120 pounds of wheat products per year. Oats are used mainly in cookies, breads, pudding, granola, baby foods, and breakfast foods—epecially that old standby, oatmeal.

During the last 35 years, the amount of oats used for human consumption in this country ranged from 33 million bushels in 1953 to 45 million bushels in 1964 and 1973. Oats account for only about 1 percent of total cereal grains consumed by Americans.

Oats are high in protein and vitamins, especially B1. The bran and germ of the kernel are good sources of vitamins and minerals, which are retained in the usual milling process.

Recent medical studies have shown that water-soluble fibrous plant materials in the diet can lower the level of cholesterol in the blood. Oat bran is water-soluble, which is not the case for some other food grains. Some medical experts say that people who have adequate fiber in their diets are less likely to get certain types of cancer.

Oats products as food for humans have not always been so highly thought of. In fact, reactions over the years have even extended to joking and ridicule.

Samuel Johnson, 18th century British editor of dictionaries, defined oats as "the grain which in England is generally given to horses, and in Scotland supports the people." A Scotsman, Lord Elibank, replied: "True, and where will you find such horses as in England or such men as in Scotland?"

Sweden. U.S. production is now about 16 percent of the world total, a substantial drop from 35 percent in the 1950's.

Demand Should Remain Steady

Consumption of oats in this country is not expected to decrease much further, Hoffman says. Current feed and food demands are likely to remain about the same. Some growth in production is a good possibility, he adds, and policymakers are taking a look at the role of the government program in influencing production.

The objectives of the program are: "to stabilize, support, and protect farm income and prices; to assist in maintaining balanced and adequate supplies of food, feed, and fiber; and to aid in the orderly marketing of farm commodities."

Hoffman has determined the effects the increased imports have had on the oats industry in this country. During the 1983 through 1986 marketing years, when imports were relatively high, there was a modest increase (4-9 percent annually) in domestic supply, a modest gain (2-6 percent annually) in domestic feed use, and a slight price decline (3-6 cents per bushel annually), he says.

Net government outlays for the oats program, which averaged $10.3 million annually during the last 4 years, were $1.7 million higher annually (on average) because of imports, Hoffman estimates. Imports increase the supply, lower the price, and thus raise the deficiency payments. Last year's government program was by far the most costly of the last 4 years, totaling more than $26 million.

During this period of increased imports, income and prices have stabilized but declined slightly. Larger supplies have resulted in higher total consumption.

"The government program objectives were not significantly affected by the increased imports in 1983-86," Hoffman concludes. □

[Based primarily on information provided by economist Linwood Hoffman of the Commodity Economics Division, Economic Research Service.]

REPORTS IN THE NEWS

Cotton's Story Is Told

Demand for U.S. cotton is strong, stocks are being worked down, and prices have picked up from last year. The higher prices, however, may attract more foreign competition.

Good news, bad news, ups and downs . . . that's the story of cotton, a commodity which grew up with this nation, survived dramatic change, and remains a major U.S. farm product and the chief raw material for one of the world's largest industries—textiles.

This report offers an in-depth look at the U.S. cotton industry from dirt to shirt—from farmers to gins to textile manufacturers, and to consumers here and abroad. A quick review of the report yielded the following noteworthy facts:

• Americans used around 57 pounds of fiber per person in 1985. Various manmade fibers accounted for two-thirds of this, and cotton nearly one-third (with a very small share for wool).

• Cotton ranks fifth among the major field crops in the total value of U.S. production, though it occupies only about 3 percent of U.S. harvested acreage.

• At the end of the 1940's, cotton was grown on more than a million American farms. By 1982, just 38,000 farms produced cotton, but average cotton acreage per farm was more than ten times as large as the average in 1949.

• Colonists of Virginia and South Carolina grew the first cotton on American shores in the early 1600's. It has been a major cash crop and an important source of foreign exchange in the United States for nearly 200 years.

• Roughly 75 nations grow cotton, but 60 percent of world production comes from just three—China, the USSR, and the United States.

• Back in 1960, about one-third of the world's cotton came from U.S. farms. In 1985, less than one bale in six was American grown. In those 25 years, U.S. harvested acreage dropped 33 percent. Although improved yields held the production decline to a modest 6 percent, rising foreign output cut deeply into the U.S. share of the global harvest.

The U.S. Cotton Industry *by Starbird, Glade, McArthur, Cooke, and Townsend. (Published June 1987; 171 pages of text, charts, and tables; GPO Stock No. 001-019-00501-7; $3.75.)*

Many Rural Areas Not Diversified

For many rural areas dependent on agriculture, and particularly for those that specialize in export crops, the farm financial crisis has been a serious blow.

The Midwest has been hardest hit.

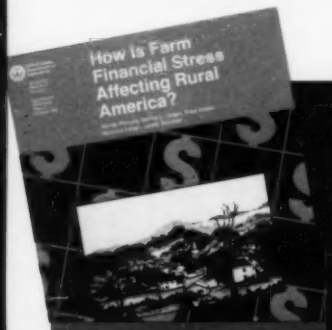
Since the 1960's, large parts of rural America have developed diversified economies tied more to manufacturing and service industries than to agriculture. However, several hundred counties have been largely unable to spawn new industries and have remained heavily dependent on agriculture's fortunes—or misfortunes.

A number of these counties have suffered major economic dislocations since 1980. More than 60 percent of them have lost population.

This report describes how rural communities are faring in the wake of the farm financial crisis.

The authors conclude that because farm and rural problems affect some entire regions, federal help could prove beneficial. They note that ex-farmers need assistance in starting new careers or new businesses, and that many rural communities are currently unable, on their own, to rebuild and diversify shattered local economies.

How Is Farm Financial Stress Affecting Rural America? *by Petrulis, Green, Hines, Nolan, and Sommer. (Published June 1987; 20 pages of text, charts, and tables; GPO Stock No. 001-019-00512-2; $1.50.)*



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Dairy Farms Not Immune to Financial Stress

Most U.S. dairy farms are financially sound operations. But the dairy sector has not been immune from the financial stress that has hit many parts of U.S. agriculture in recent years.

Financial conditions on dairy farms, as well as most other types of farms, vary widely according to location, type and size of farm, and specialization.

For dairy farms, financial stress appears to be most prevalent among farms that depend on dairy products for less than 50 percent of their gross cash income, generate less than $40,000 in annual sales, and are located in the central areas of the country.

This is one finding of the study conducted by Ken Baum, Mitchell Morehart and Jim Johnson, analysts with USDA's Economic Research Service. The study is based on last year's Farm Costs and Returns Survey, which covered 1985 and provided data on a wide variety of farming operations, including about 175,000 dairy farms.

Average gross farm receipts for the surveyed farms were $122,000 in 1985. Average cash expenses were $88,000. But 24 percent of the 175,000 dairies reported negative business cash income. This means that nearly a quarter of these farmers were not making enough money to cover their operating costs and interest payments on their loans.

Thirty-seven percent of the farms reported little or no debt on January 1, 1986. "These operations were those that, at most, had 10 cents of debt for every $1 of assets," explains economist Baum. Less than 10 percent of the farms reported serious solvency problems, with debts between 70 and 100 percent of assets. Finally, those that were technically insolvent—with more debts than assets—accounted for 4 percent of all farms, he says.

Nevertheless, almost half the farms in the survey reported some degree of financial hardship.

Under what conditions was a dairy operation considered to be financially stressed? The economists defined such farms as those that had negative business cash incomes and debt levels of at least 40 percent of their assets. In other words, stressed operations were those that had moderate to serious solvency problems and failed to generate enough income to cover their operating costs and interest payments.

Nearly a quarter of the dairy farms were not making enough money to cover their operating costs and interest payments on their loans.

As the percentage—or ratio—of debts to assets increased, the percentage of dairy farms with negative business cash income also rose. "This indicates the degree of financial instability was also increasing," says Baum. Farms with debts below 40 percent of assets were considered not to be under financial stress.

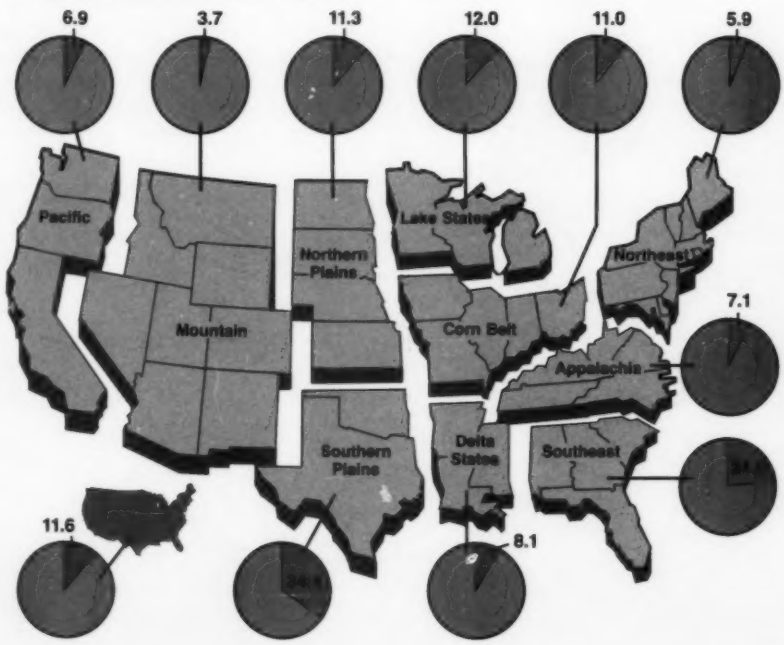
This quick summary, however, hardly reflects the diverse financial conditions of U.S. dairy farms, which have many size and regional variations.

Regional Financial Conditions

For instance, the Southeast and Southern Plains appeared to have higher proportions of financially stressed dairies than other regions. These areas were among those most affected by several years of dry weather, which depleted forage availability. These areas are also among the ones most affected by recent years of agricultural recession. Regions with the lowest share of dairy farm financial stress were Mountain, Northeast and Pacific.

Financial Stress Among Dairy Farms Is Greatest in the Southeast and Southern Plains

Percent of dairy farms with negative business cash income and debt-to-asset ratios of more than 40 percent:



Despite the relatively large percentage of stressed dairies in the Southeast, Baum says, "It is important to note that the data also suggest there were a substantial number of dairies in the Southeast that were financially sound. Many of the Southeast farms generate large incomes and have favorably low debt-to-asset ratios. Furthermore, there are other areas of the country where at least 90 percent of the operations are free of business financial stress."

Another point of interest, say the economists, is that those operations with the highest average per farm receipts were not found in the traditional land of milk and cheese (nearly 80 percent of all dairy farms are located in the Lake States, the Northeast, and the Corn Belt). Rather, the highest average farm receipts were reported in the Pacific, Mountain, and Southeast areas. Many dairies in these three regions appear to be larger than those in other areas, the economists point out. On average, farms in these regions have at least double the assets and debts of farms in other regions.

Clearly, there is a strong relationship between a farm's solvency and the cash income it can generate. "As you might expect, operators with larger gross incomes appeared to be less stressed than lower income farmers for several reasons, including economies of size and lower per cow investment costs," says Baum.

Changing Farm Receipts

"Dairy farms, which generally have a lower level of off-farm income than other operations, are more financially sensitive to changes in farm receipts," says Baum.

As dairy price supports decline, in accordance with the 1985 farm bill, many dairy operators could feel mounting financial pressure. Some farms may be unable to improve their operating efficiencies or lower their production costs and, therefore, will have difficulty adjusting to the lower support levels, Baum explains.

The economists' research also suggests that as an operation's debt rose above 40 percent of the value of its assets, the farm was more likely to report income problems. "In fact, our research shows that 25 percent of those farms with moderately high debt (debt at 40 to 70 percent of assets) reported a negative business cash balance. However, among insolvent operations, almost half reported negative business cash balances," says Baum.

The contribution of dairy product sales to a farm's total income (gross cash receipts) was another factor associated with an operation's financial condition. But financial stress did not necessarily increase with production specialization.

As the economists found, farms with 50-69 percent of their gross sales generated by dairy products showed the least financial stress. Almost one-half of the farms that were less specialized—where dairying contributed less than half of the farm's gross cash receipts—were financially stressed. Nearly a third of the farms where dairy products represented 70 percent of gross cash receipts had debts in the danger zone of 40 percent or more of assets.

What does the future hold? As the economists point out, their analysis provides only a single year's perspective on the industry. How 1985—a period of moderate growth for the industry—will compare with future years is unknown.

It will be difficult to make direct comparisons of the dairy industry using the 1985 data and recently collected 1986 data. The reason, the economists say, is that while dairy cow numbers reached record levels by the end of 1985, last year brought an unprecedented decline in herd size because of the Dairy Termination Program. As additional data is gathered, more information can be developed about how the financial position of the industry changes in response to various economic, price, and policy conditions, say the economists. □

[Based on information provided by Ken Baum of the Commodity Economics Division, and Mitchell Morehart and Jim Johnson of the Agriculture and Rural Economy Division, Economic Research Service.]

The Northern Plains and the Lake States Are the Regions with the Highest Debt-to-Asset Ratios for Dairy Farms

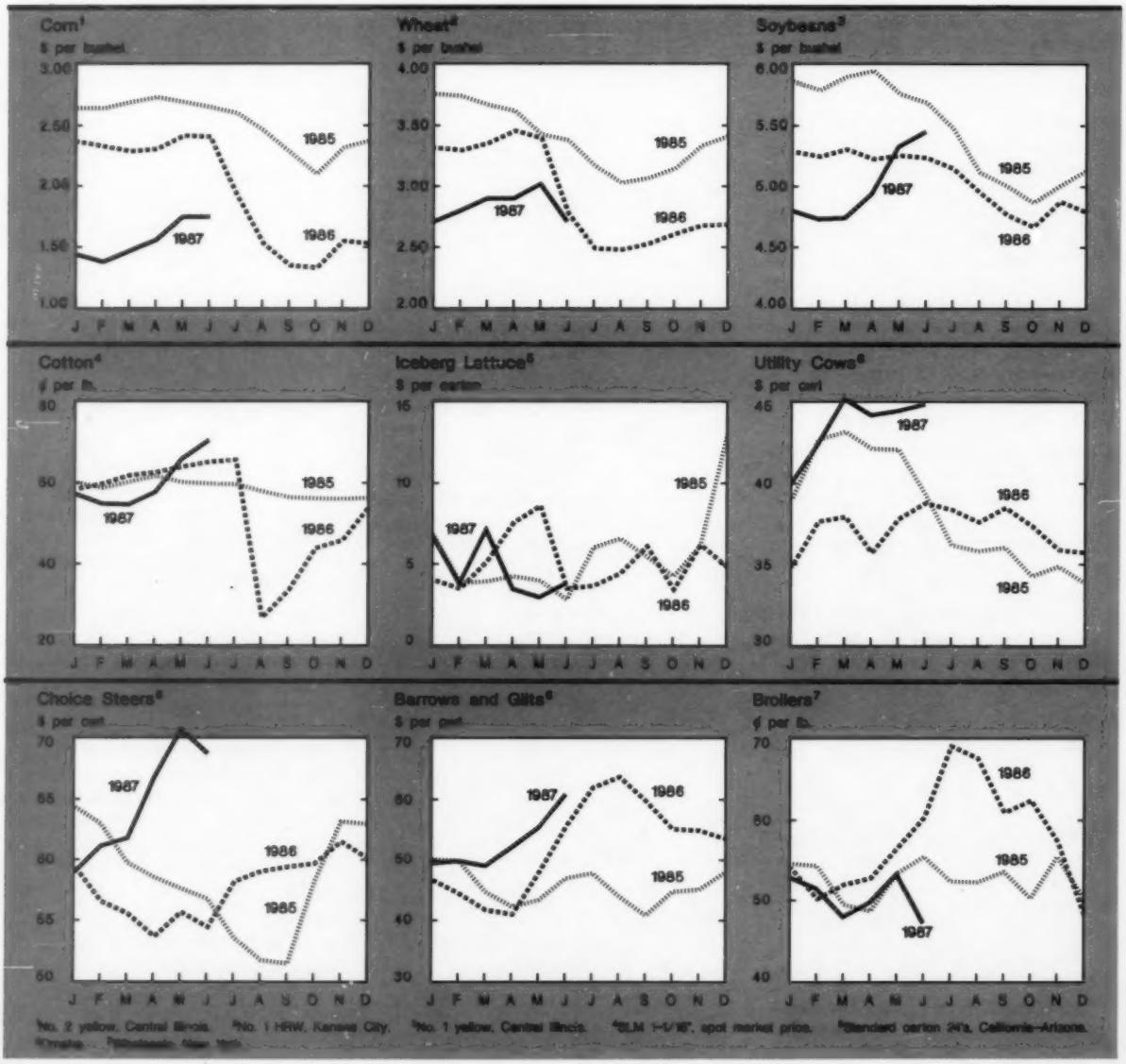
	Number of dairy farms	Av. net cash farm business income	Debt-to-asset ratios[1]
Northeast	7,000	$22,655	19%
Lake States	72,000	$21,535	36%
Corn Belt	26,000	$18,359	26%
Northern Plains	8,000	$10,998	39%
Appalachia	8,000	$15,611	22%
Southeast	2,000	$56,603	16%
Delta	3,000	$15,227	20%
Southern Plains	4,000	$14,608	26%
Mountain	4,000	$37,305	24%
Pacific	7,000	$45,576	28%
U.S.	175,000	$22,776	27%

Based on the 1965 Farm Costs and Returns Survey.
[1]Debt expressed as a proportion of assets.

FARMLINE TRENDS

Monthly Price Monitor

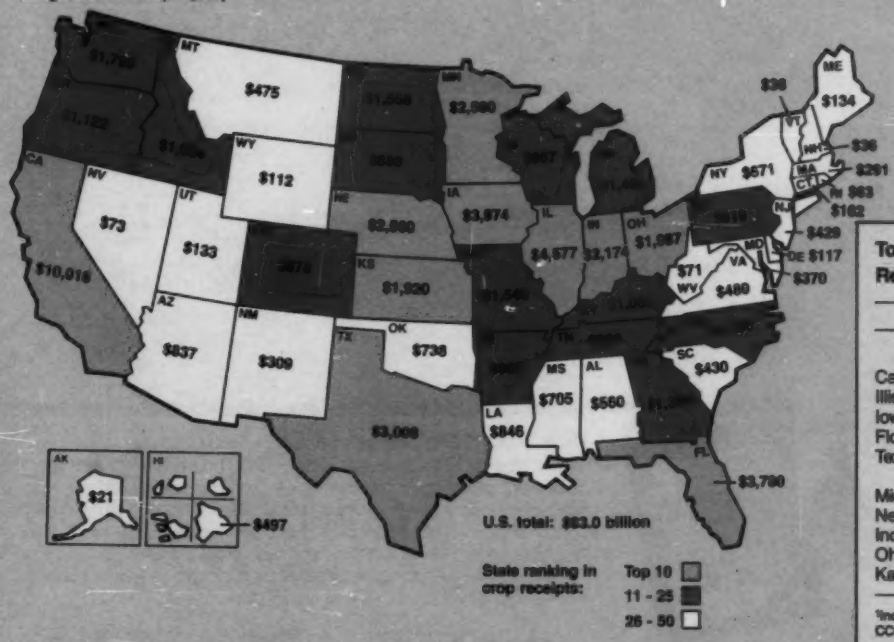
USDA's June index of farm prices increased 1.6% from May and was 8.3% above its year-earlier level. Corn held steady at $1.75 per bushel, while wheat dropped back to its January price of $2.71. Soybeans rose for the fourth straight month, hitting $5.45 per bushel, while cotton climbed above 70¢ per lb. for the first time since June 1984. In the meat animals area, utility cows moved up to $44.81 per cwt, and choice steers lost $2 to $68.68. Barrows and gilts gained more than $5 to $60.66, the highest price since August 1985. Broilers slumped to 47.1¢ per lb., the lowest since April 1983. All prices shown are monthly averages.



Cash Receipts from Farm Marketings: State Estimates for 1986

1986 Cash Receipts from Crops

All figures in millions (000,000)



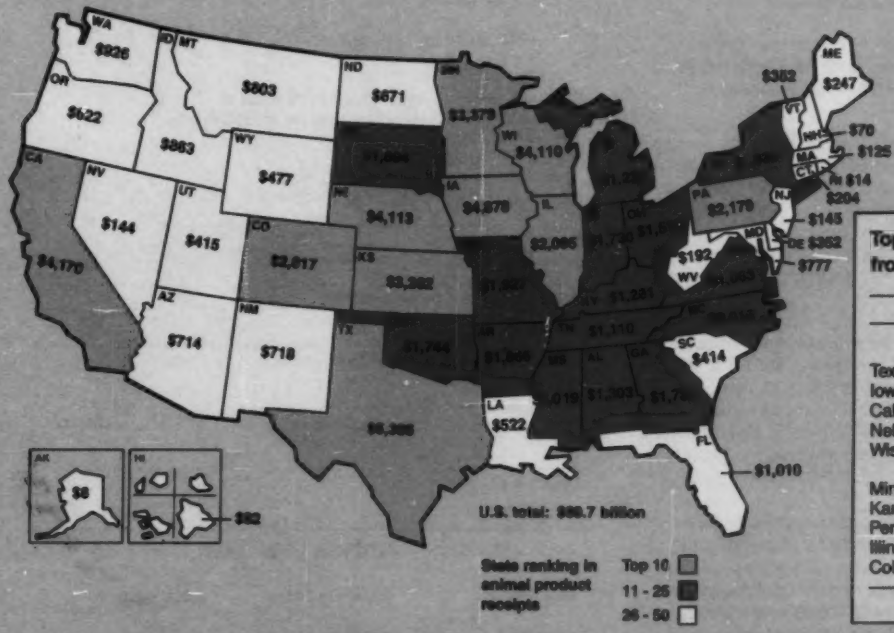
Top Ten States in 1986 Crop Receipts[1]

	1984	1985	1986
	$ millions		
California	9,944	10,026	10,016
Illinois	4,482	5,914	4,577
Iowa	3,924	4,581	3,974
Florida	3,642	3,583	3,780
Texas	3,569	3,926	3,008
Minnesota	2,728	3,222	2,580
Nebraska	2,510	3,227	2,560
Indiana	2,426	3,064	2,174
Ohio	1,989	2,600	1,987
Kansas	2,406	2,555	1,920

[1]Includes receipts from commodities placed under CCC loans minus value of redemptions.

1986 Cash Receipts from Livestock, Dairy, and Poultry

All figures in millions (000,000)



Top Ten States in 1986 Receipts from Animal Products

	1984	1985	1986
	$ millions		
Texas	5,901	5,441	5,386
Iowa	5,015	4,811	4,878
California	4,529	4,161	4,170
Nebraska	4,524	4,112	4,113
Wisconsin	4,075	4,108	4,110
Minnesota	3,360	3,371	3,379
Kansas	3,614	3,264	3,262
Pennsylvania	2,242	2,184	2,179
Illinois	2,173	2,063	2,065
Colorado	2,205	2,019	2,017

All data subject to revision. Data were provided by economist Bob Williams of the Agriculture and Rural Economy Division, Economic Research Service.

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